REPORT

POLAND
COMMERCIAL MARKET
H1 2015

OFFICE
Strong developers' activity both in Warsaw and regional cities

RETAIL
Significant supply under construction in the major markets

INVESTMENT
Increasing performance of the regional office markets

Office Market

Warsaw

In H1 2015, the Warsaw office market performed according to previous expectations. Upward trends of newly completed supply, office take-up and vacancy rate were observed, while asking rents slightly decreased in comparison with year-end 2014.

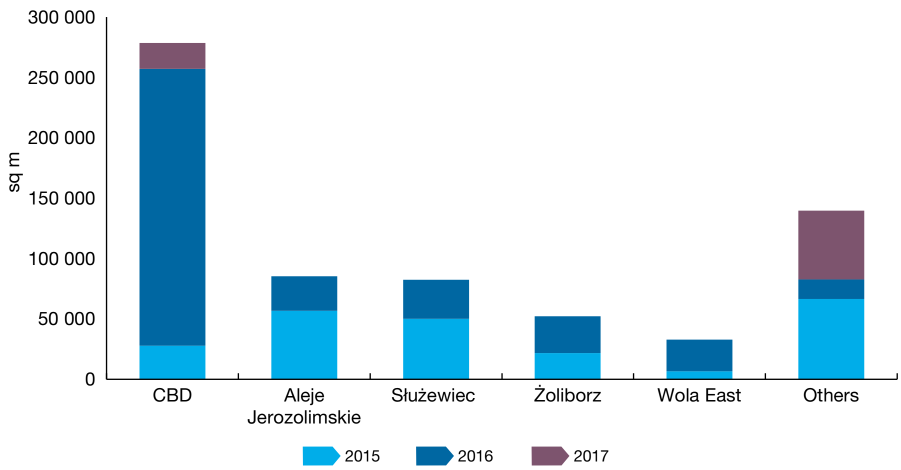
In mid-2015, total office stock in Warsaw amounted to 4.5m sq m (of which 3.8m sq m was for rent and the remaining space owner-occupied). This was due to completion of approx. 144,000 sq m within the last 6 months, 50% of which was located in Służewiec Przemysłowy. Developers' activity has remained at high levels and some 670,000 sq m of offices was under construction in Warsaw at the end of Q2 2015. This amount, lower than in December 2014 is a consequence of both completion of schemes that had previously been under construction and developers who more often refrain from commencing new projects (only some 23,000 sq m was commenced in H1 2015 vs. 113,000 sq m started in H1 2014, and 262,000 sq m – in H2 2014). Knight Frank is of the opinion that the trend should continue in H2 2015.

Over H1 2015, the volume of lease agreements signed approached 390,000 sq m. This is 50% higher result than in H1 2014 and already accounts for 63% of the total gross take-up in 2014. The figures are positive though they are achieved mainly through relocations of companies (Aviva, Samsung or HSBC are typical examples) or renegotiations of lease contracts (e.g. E&Y, Hewlett Packard). Net absorption in H1 2015 amounted to approx. 88,200 sq m, i.e. over 50% more than in H1 2014, and accounted for some 60% of new supply completed in H1 2015.

Availability of existing office space increased in comparison to the end of 2014. Some 630,000 sq m stood vacant in June 2015 which accounted for 16.4% of Warsaw's rentable stock (an increase by 0.8 percentage point over 6 months). Over 214,000 sq m remains vacant in the CBD (18.4%, increase by 0.3 pp.) and some 70% of the volume is made both by buildings

Grzybowska 43, Wisher Enterprise

CHART 1
Office under construction in Warsaw by location
Q2 2015



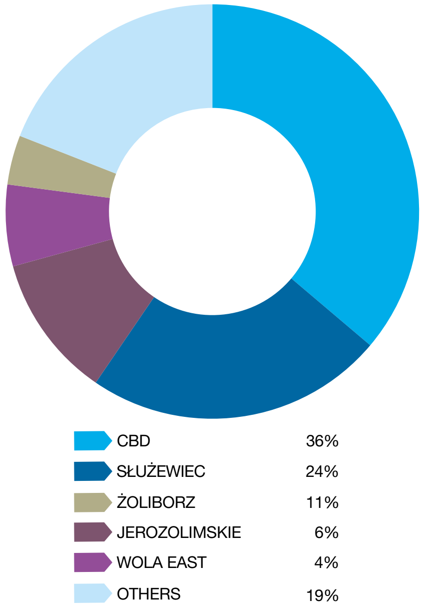
Source: Knight Frank, PORF

Horizon Plaza, Union Investment, Warsaw

CHART 2

Office take-up by location

H1 2015

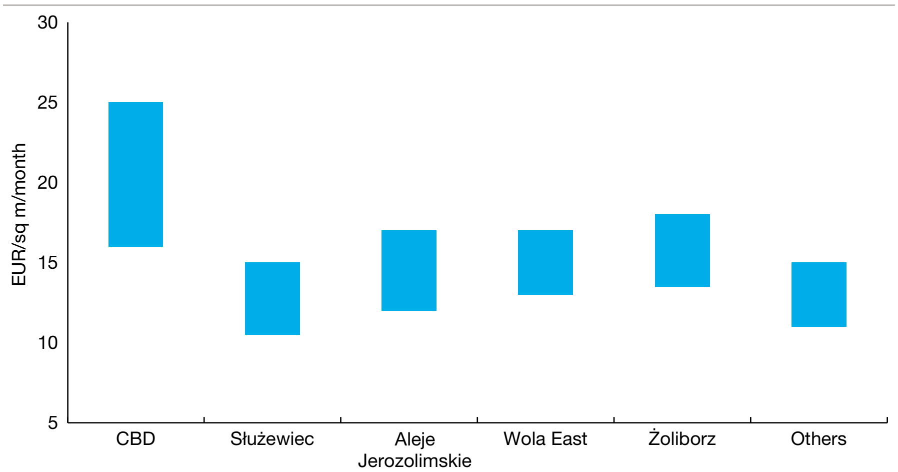


Source: Knight Frank, PORF

CHART 3

Asking rents in Warsaw by location

Q2 2015



Source: Knight Frank, PORF

delivered prior to 2000 and new projects (completed within 2013-2015). Vacant space in buildings located outside the CBD accounted for 15.6% of the stock, with Służewiec Przemysłowy being the area with the highest increase in vacancy rate (from 13.3% in December 2014 to 18.3% in June 2015).

Over the last 6 months, asking rents in the Warsaw office market have slightly decreased. The monthly asking rates for buildings situated within the city centre start from EUR 16 per sq m and rarely exceed EUR 23 per sq m. Asking rents in buildings outside the city centre still range between EUR 10.5 and 18 per sq m per month, yet the rates went down in some projects. Developers, eager to acquire tenants for their investments currently under construction, may offer a wide range of incentives, which may lower the base rents by as much as even 20-30%.

Major regional cities

The development of the office market in regional cities has not slowed down in H1 2015. Dynamic growth of supply was accompanied by strong demand.
The volume of available space and asking rent remain stable and nothing indicates

that the positive situation in major regional markets is going to change in the near future.

At the end of June 2015, rentable office stock in six major regional markets (Kraków, Wrocław, Tricity, Poznań, Katowice, Łódź) exceeded 2.5 million sq m. In H1 2015, new supply totalled 154,400 sq m. The largest amount of new office space was delivered to the market in Wrocław (6 schemes) and in Poznań (3 schemes) – rentable stocks in each of these markets expanded by nearly 50,000 sq m, while in Tricity approximately 30,000 sq m of space was created across 4 new projects. In the remaining cities single new developments were delivered to the local market.

As of the end of H1 2015, a record-breaking volume of supply under construction was noted, exceeding 530,000 sq m. The vast majority of the space is being developed in the largest regional markets: in Kraków, Wrocław and Tricity. Nearly 220,000 sq m is scheduled to be completed in H2 2015 (of which 90,000 sq m solely in Kraków), which will result in a record-breaking annual volume of new supply in regional cities. Completion of further 300,000 sq m of modern office space is planned in 2016. Approximately 18% of the space under construction has already been secured with pre-let agreements. At the end of June 2015, the most significant share of space was pre-leased in Kraków (30%), while the lowest was in Wrocław (9%) and Łódź (11%).

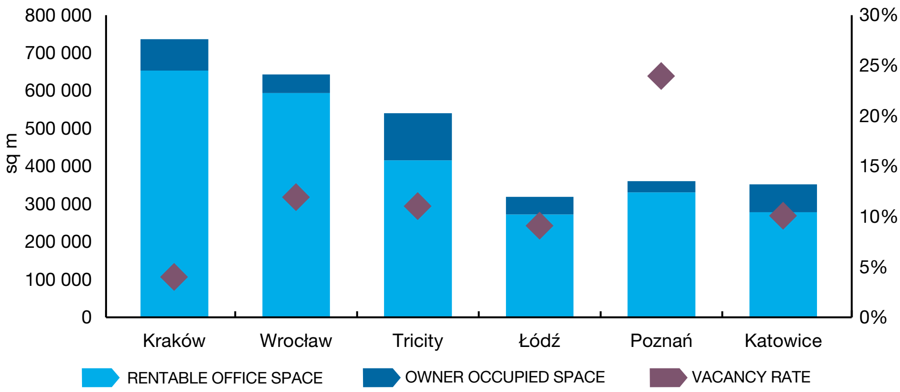
Tenants' activity in regional cities has not weakened. Q2 2015 was outstanding in terms of volume of lease transactions concluded in major regional markets. Over the last three months, lease agreements amounting to 117,000 sq m were signed, while take-up volume recorded in H1 2015 (over 192,000 sq m) constituted almost 55% of the result noted in 2014, which was the best so far. The volume of leased space was the highest in Kraków (64,000 sq m). High tenants' activity in Tricity (41,600 sq m) is also worth mentioning, as well as significant increase of demand in Poznań when compared with the previous year (17,500 sq m leased in H1 2015, 4% less than in 2014).

Despite the high dynamics of supply, volume of available space in existing schemes and vacancy rate at the end of Q2 2015 decreased in majority of regional

CHART 4

Office stock in major regional markets including owner occupied space

Q2 2015

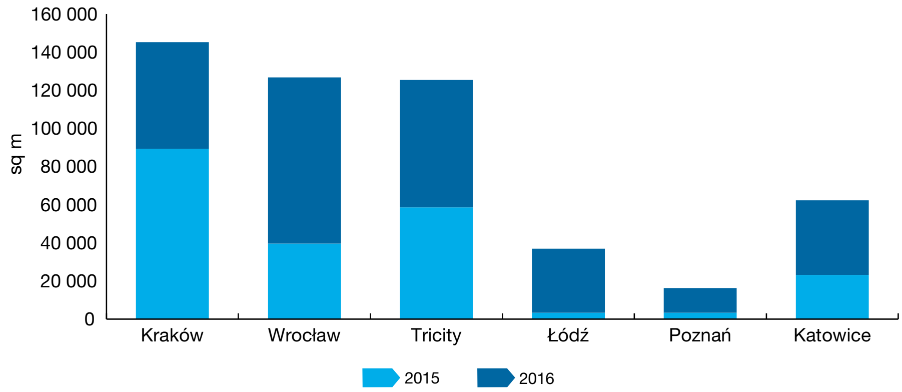


Source: Knight Frank, PORF

CHART 5

Office space under construction in major regional markets

Q2 2015



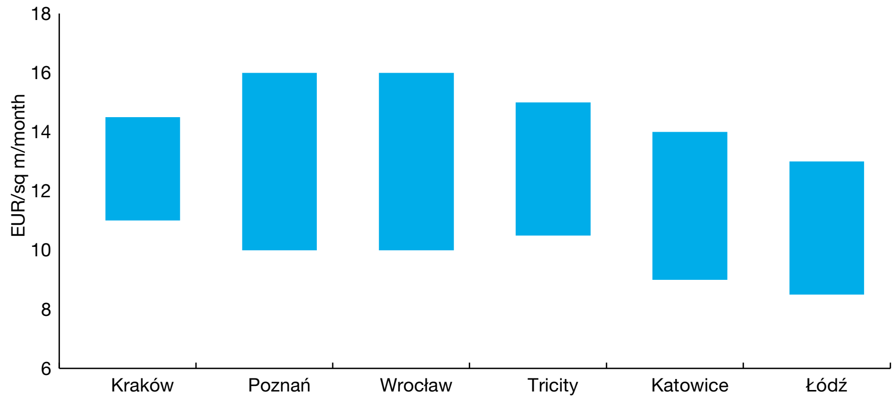
Source: Knight Frank, PORF

Wroclaw 101, Crownway Investments, Wrocław

CHART 6

Asking rents in major office markets

Q2 2015

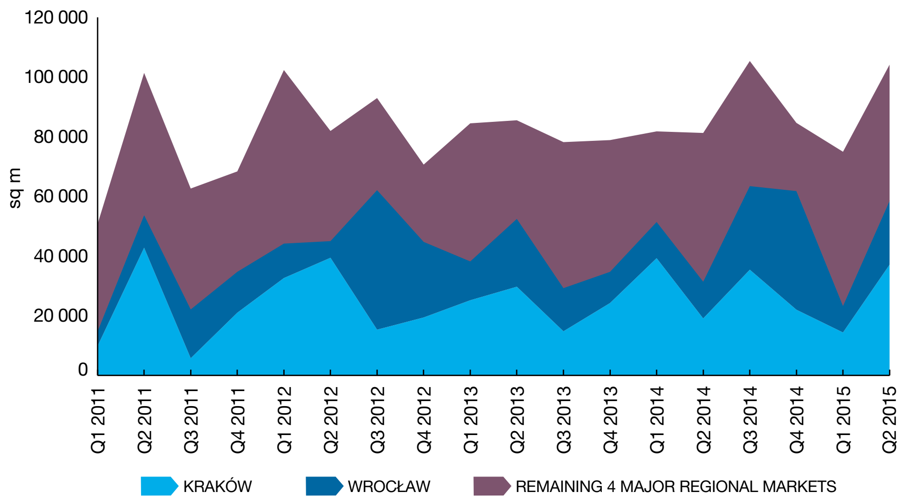


Source: Knight Frank, PORF

CHART 7

Take-up volume in major regional office markets

2011 - Q2 2015



Source: Knight Frank, PORF

Nicolas Business Center Wrocław - Global Center, Wrocław

markets. A slight increase was noted only in Wrocław. The lowest level of vacancy rate is still recorded in Kraków, while since March 2015, the highest ratio has been observed in Poznań (23.9%). Considering the pace of supply and demand growth, a slight increase in vacancy rate is expected in the majority of the analysed markets.

In H1 2015, asking rents in the vast majority of office buildings in regional markets remained stable. The lowest rates, in the range of EUR 8.5 to 13 per sq m per month were recorded in Łódź, the highest rents varying between EUR 10 and 16 per sq m per month were noted in Wrocław and Poznań. Effective rents were on average 10-15% lower than asking rents.

Investment Market

The notable lack of big ticket transactions in H1 2015 resulted in weaker investment performance compared to the corresponding period of 2014. Total investment volume in the first six months of 2015 reached EUR 801.3 million, noting a 43% drop when compared to H1 2014. The predominant office acquisitions constituted 49% of all transactions, 32% were represented by retail deals, whereas industrial contracts had a nearly 19% share. Notwithstanding the poor investment performance in the first half of the year, there is a number of high-profile pending transactions which should boost the H2 2015 volumes.

The most significant deals in H1 2015 included: Enterprise Park acquired by Tristan Capital Partners in Kraków, Green Horizon purchased by Griffin in Łódź, a portfolio of offices comprising of Europlex, Wiśniowy A and Irydion in Warsaw and Millennium Plaza in Katowice acquired by Lonestar, Sarni Stok in Bielsko-Biała and Focus Mall Rybnik acquired by Union Investment, Solaris Centre in Opole purchased by Rockcastle as well as the Europolis/CA Immo and FM Logistics industrial portfolios closed by TPG and WP Carey respectively. All of the above transactions were medium-sized deals ranging between EUR 50 million and EUR 100 million.

In H1 2015, the office sector was dominated by regional transactions which amounted to approx. EUR 218 million (versus EUR 173.7

million acquisitions in Warsaw). The international capital seeking CEE opportunities has provided increased liquidity for large office portfolios and is expected to further contribute to a sustained firm demand for attractive properties in Warsaw and regional cities.

The first half of 2015 has not brought any prime large-scale transactions, however it is expected that prime yields in office and warehouse sector will sharpen in the forthcoming quarters.

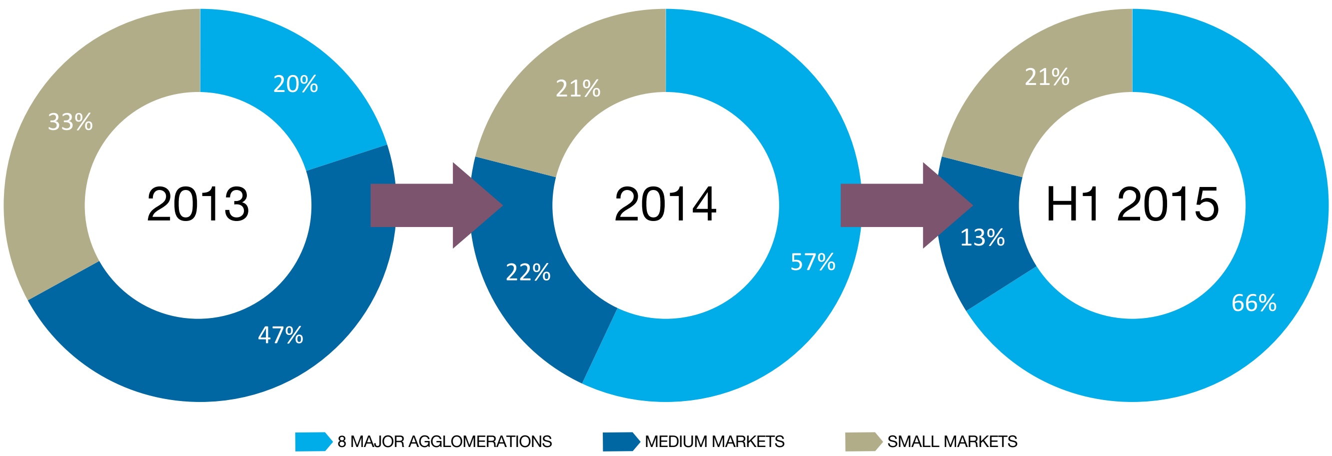
Retail Market

In mid-2015, the total retail stock in Poland exceeded 11.8m sq m. The largest volume is situated in major agglomerations – 6.4m sq m. Another 3.3m sq m was offered in the medium-sized markets (populated by 100,000-400,000 inhabitants) and 2.1m sq m in the small-sized cities (below 100,000 citizens).

In H1 2015, a high development pace was recorded in the medium markets. Nearly half of the total new supply (90,000 sq m) were completed in these cities. The largest projects are: Tarasy Zamkowe in Lublin (38,000 sq m) and Galeria Neptun in Starogard Gdański (25,000 sq m). Due to increasing competition in the retail market in Poland, other shopping centres have been extended and re-commercialized. The total space of extended phases amounted to 80,000 sq m in H1 2015, of which the largest are: Centrum Handlowe Ogrody in Elbląg (22,500 sq m) and Magnolia Park in Wrocław (20,000 sq m).

Madison Shopping Mall, Javin Investments, Gdańsk

CHART 8
Retail supply under construction by location
2013 - H1 2015



Source: Knight Frank

However, there is a number of large-scale shopping centres under construction in the major agglomerations. Thus, these regions will take over the leadership in terms of new supply in the following years. At the end of June 2015, there was 750,000 sq m of retail space under construction in Poland, of which 66% was in the major markets. The largest schemes are: Posnania in Poznań (100,000 sq m), Sukcesja in Łódź (57,000 sq m) and Wroclavia in Wrocław (64,000 sq m; construction works started in Q2 2015). Additionally, the construction of Galeria Północna in Warsaw is scheduled to be commenced in Q3 2015. The project will offer 60,000 sq m of GLA and will be the first large-scale shopping centre in Warsaw since 2007 (following Złote Tarasy).

After several years of significant levels of developers' activity in medium- and small-sized markets, supply is expected to slow down next year. At the end of June 2015, approximately 250,000 sq m of retail space was under construction in these cities. The vast majority is due to be completed in the second half of the year. Currently, developers are focusing on large-scale shopping centres completions, e.g. Zielone Arkady in Bydgoszcz (48,000 sq m), Vivo! Stalowa Wola (32,000 sq m), Galeria Aviator in Mielec (26,000 sq m), and commence the construction works in small-scale schemes (retail parks and convenience shopping centres).

According to the developers' schedules, nearly twice as much retail space as delivered in H1 2015 is due to be completed in Poland in H2 2015 - approximately 400,000 sq m. The largest projects are: Sukcesja in Łódź (57,000 sq m), extension of Bielany Park Handlowy in Wrocław (35,000 sq m, to be renamed to Aleja Bielany upon completion), Galeria Galena in Jaworzno (32,000 sq m) and Supersam in Katowice (20,000 sq m). Thus, it is expected that 2015 will be better than 2014 and comparable to 2013 in terms of new supply.

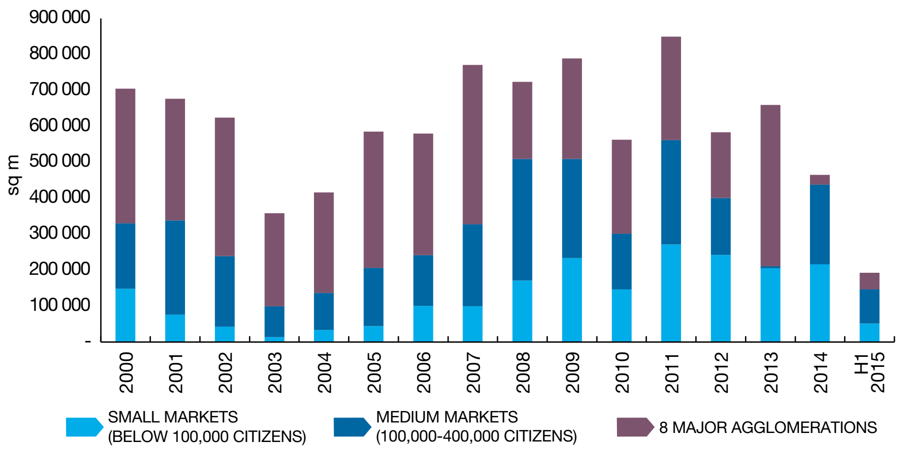
Demand for retail space in Poland has remained stable in H1 2015. Some foreign brands have opened their first stores in the Polish market, e.g. Superdry, Courir and Disquared2 Kids in Warsaw. Moreover, in H1 2015, Ecco introduced new brand with leather accessories – Ecco Leather Goods – first such store in the world.

In H1 2015, rents for prime retail units remained unchanged. Warsaw was still the most expensive retail market in Poland. The prime rents for units up to 100 sq m in prime shopping centres often exceed EUR 100/sq m/month. The monthly prime rents are lower in the regional markets and range between EUR 30 to EUR 60/sq m.

CHART 9

New retail supply in Poland

2000 - H1 2015



Source: Knight Frank

Madison Shopping Mall, Javin Investments, Gdańsk

COMMERCIAL MARKET

As one of the largest and most experienced research teams operating across Polish commercial real estate markets, Knight Frank Poland provides strategic advice, forecasting and consultancy services to a wide range of commercial clients including developers, investment funds, financial and corporate institutions as well as private individuals.

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- market reports and analysis available to the public,
- tailored presentations and market reports for clients.

Reports are produced on a quarterly basis and cover all sectors of commercial market (office, retail, industrial, hotel) in major Polish cities and regions (Warsaw, Kraków, Łódź, Poznań, Silesia, Tricity, Wrocław). Long-term presence in local markets has allowed our research team to build in-depth expertise of socio-economic factors affecting commercial and residential real estate in Poland.

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